

Message Text

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SUBJECT: COSTA RICA'S QUOTA UNDER THE VOLUNTARY RESTRAINT
PROGRAM FOR MEAT

REF: SAN JOSE 392

SUMMARY: THIS MESSAGE DISCUSSES THE PROPOSED U.S. VOLUNTARY
RESTRAINT PROGRAM FOR MEAT, AS IT APPLIES TO COSTA RICA, AND
SETS FORTH THE REASONS WHY THE EMBASSY BELIVES THAT U.S.
OFFICIALS SHULD RE-THINK THE PROPOSAL. WITHOUT TAKING AN
EXCESSIVELY PAROCHIAL STANCE, THE EMBASSY WOULD WISH TO
EMPHASIZE ITS BELIEF THAT THERE ARE STRONG REASONS AND LEGITI-
MATE ARGUMENTS IN FAVOR OF GIVING COSTA RICA MORE FAVORABLE
TREATMENT THAN THAT CONTEMPLATED IN THE ORIGINAL U.S. PROPOSAL.
END SUMMARY.

1. A RESTRAINT PROGRAM NOT A ROLL-BACK PROGRAM - IT IS A
DESIRABLE PRACTICE, WHEN IMPLEMENTING A RESTRAINT PROGRAM,
TO BEGIN, WHENEVER PRACTICABLE, WITH A RESTRAINT LEVEL REFLECT-
ING THE CURRENT VOLUME OF TRADE, WITH PROVISIONS FOR RESTRAINING
FUTURE GROWTH OF IMPORTS, RATHER THAN TO IMPOSE ROLL-BACKS
ON TRADITIONAL SUPPLIERS. WE BELIEVE THAT THIS SHOULD

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PARTICULARLY BE THE PRACTICE WHERE SHIPMENTS, AS IN THE CASE

FO COSTA RICAN BEEF EXPORTS, SHOW A STEADY UPWARD TREND RATHER THAN A FLUCTUATION AROUND A NORM WHICH COULD MORE REASONABLY BE REPRESENTED BY A THREE-YEAR AVERAGE. COULD WE NOT USE A DOUBLE FORMULA? THAT IS, COULD WE NOT CALCULATE THE VRS LEVEL ON THE BASIS EITHER OF AVERAGE OF A TWO OR THREE-YEAR BASE PERIOD (TO TAKE ACCOUNT OF FLUCTUATIONS FROM DRAUGHTS, ETC.) OR OF THE LATEST YEAR (TO TAKE ACCOUNT OF GROWTH AND PRESENT PROSPECTS), WHICHEVER YIELDS THE HIGHEST LEVEL OF ALLOWAABLE SHIPMENTS TO THE U.S. EVEN THIS LATTER BASIS WOULD YIELD A VRS LEVEL 12 MILLION LBS BELOW COSTA RICA'S ESTIMATED EXPORT AVAILABILITY FOR 1975 (69 MILLION POUNDS) AND BELOW THE AMOUNT COSTA RICA IS REQUESTING IN CONSULTATIONS (57 MILLION POUNDS AS PER REFTEL). WE ESTIMATE THAT SUCH A FORMULA, IF APPLIED WORLDWIDE, WOULD ALLOW A U.S. IMPORT LEVEL FOR 1975 OF APPROXIMATELY 1,235 MILLION POUNDS. THIS WOULD REPRESENT 5.0 PERCENT OF THE TOTAL U.S. DOMESTIC PRODUCTION AS COMPARED TO THE TARGET LEVEL FOR IMPORTS OF 4.7 PERCENT. PRESUMABLY A DIFFERENCE OF THIS AMOUNT IN THE IMPORT LEVEL WOULD NOT SUBSTANTIALLY AFFECT PRICES AND THE RESULTING RESTRAINT SYSTEM MIGHT WELL BE FULLY ACCEPTABLE TO DOMESTIC PRODUCERS.

2. RECOGNITION OF FAITHFUL SUPPLY - IN THE CASE OF SUGAR THE USG HAS ASKED THE EMBASSY REPEATEDLY TO CALL TO THE ATTENTION OF THE GOCR THAT ITS PERFORMANCE IN SUPPLYING THE PRODUCT TO THE U.S. MARKET WILL FORM THE BASIS FOR FUTURE QUOTAS IF THE U.S. RETURNS TO A QUOTA SYSTEM. SHOULD WE NOT THEN RECOGNIZE AND REWARD COSTA RICA'S PERFORMANCE IN INCREASING MEAT SHIPMENTS IN 1974 WHEN QUOTAS WERE SUSPENDED? OTHER COUNTRIES, NOTABLY AUSTRALIA, REDUCED SHIPMENTS DURING THIS PERIOD OF LOW PRICES YET WE PROPOSE TO USE A BASE PERIOD (THREE YEARS) WHICH WILL YIELD THEM A LARGER QUOTA THROUGH INCLUDING THEIR HIGH SHIPMENTS IN 1972 AND PENALIZE THEM LESS FOR REDUCING SHIPMENTS IN 1974. HOW CAN OUR APPEALS ON SUGAR BE CREDIBLE IF WE DO NOT RECOGNIZE FAITHFUL PERFORMANCE BY SUPPLIERS OF MEAT?

3. CAPACITY AND WILL TO DELIVER THE GOODS - COSTA RICA'S STEADY UPWARD TREND OF EXPORTS OF MEAT TO THE U.S. AND THE STEADY BUILD-UP OF HERDS AND PROCESSING CAPACITY SUGGEST A CAPACITY AND A WILL TO DELIVER THE GOODS. AS A NEARBY LIMITED OFFICIAL USE

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SUPPLIER WITH LOWER TRANSPORTATION COSTS, COSTA RICA IS NATURALLY IN A BETTER POSITION TO MAINTAIN EXPORTS PROFITABLY WHEN PRICES, AS AT PRESENT, ARE RELATIVELY LOW. WHY SHOULD THE U.S. ASSUME THAT COUNTRIES THAT DID NOT FIND IT TO THEIR ADVANTAGE TO SHIP AS MUCH MEAT LAST YEAR AS PREVIOUSLY WILL INCREASE THEIR SHIPMENTS THIS YEAR? IF THEY DID NOT FIND IT PROFITABLE TO MAINTAIN EXPORT LEVELS IN 1974, PERHPAS THEY WILL NOT FIND IT PROFITABLE TO INCREASE EXPORTS TO THE

U.S. IN 1975. IN THE CASE OF SOME OTHER SUPPLIER COUNTRIES, THERE MAY BE DOUBTS ABOUT ABILITY TO DELIVER ON OTHER GROUNDS. WE UNDERSTAND THAT DRAUGHT CONDITIONS THAT HIT CENTRAL AMERICAN IN 1972 AND 1973 CAUSED HERDS IN SOME COUNTRIES TO BE REDUCED, WHICH BOTH INFLATED EXPORT LEVELS IN THAT PERIOD ABOVE NORMAL CAPACITY AND REDUCED POTENTIAL FOR FUTURE EXPORT. MANIFESTLY, THE DEPARTMENT IS IN A BETTER POSITION THAN THE EMBASSY TO ASSESS THESE FACTORS, BUT WE WOULD HOPE THAT REAL AND SIZABLE REDUCTIONS WOULD NOT BE IMPOSED ON COSTA RICA FOR THE SAKE OF PROVIDING QUOTAS FOR CERTAIN OTHER COUNTRIES THAT MAY BE MATHEMATI- CALLY DEFENSIBLE BUT MIGHT NOT REFLECT REAL EXPORT POSSI- BILITIES AND INTENTIONS.

4. BILATERAL BEEF TRADE - BEEF IS A TWO-WAY TRADE, COSTA RICA EXPORTS MEAT TO THE U.S. WHILE THE U.S. EXPORTS BREEDING CATTLE, VETERINARIAN SUPPLIES, FARM MACHINERY AND EQUIPMENT FOR PACKING PLANTS TO COSTA RICA. COSTA RICA HAS CONSISTENTLY BEEN THE THIRD LARGEST EXPORT MARKET FOR U.S. BEEF BREEDING CATTLE, AND PRESUMABLY, IF THE LIVESTOCK INDUSTRY WAS PLACED IN A "CRIS STATE", A GOOD BIT OF THAT TRADE WOULD DRY UP.

5. EQUITABLENESS - IT FURTHER SEEMS TO THE EMBASSY THAT THE PURELY MATHEMATICAL APPROACH TO ALLOCATING QUOTAS IS NOT EQUITABLE AND IGNORES OTHER REALITIES IN THE CURRENT WORLD MEAT SITUATION AND NORMAL MARKETS. WHY DOES THE U.S. PROPOSE TO GRANT A QUOTA TO IRELAND AND PERMIT IMPORTS FROM THE U.K., TWO MEMBERS OF THE EEC, WHEN IT IS THE MEAT IMPORT POLICIES OF THE EEC THAT ARE COMPOUNDING THE WORLD-WIDE MEAT PROBLEM? PRESUMABLY SALES BY THESE TWO COUNTRIES ENJOY A FAVORABLE ADVANTAGE BEHIND THE PROTECTIVE WALLS OF THE EEC TO THE DETRIMENT OF THIRD COUNTRY LIMITED OFFICIAL USE

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EXPORTERS. IT COULD BE ARGUED THAT COUNTRIES LIKE COSTA RICA SHOULD TRY TO DIVERSIFY THEIR MEAT EXPORTS AND NOT RELY SO HEAVILY ON THE U.S. MARKET, BUT BECAUSE OF THEIR GEOGRAPHIC POSITION AND VOLUME OF EXPORTS, THEY ARE UNABLE TO COMPETE WITH AUSTRALIA AND NEW ZEALAND IN THE IMPORTANT BEEF MARKETS OF EUROPE AND JAPAN. COSTA RICA'S COMPETITIVE ADVANTAGE HAS BEEN IN SELLING TO THE U.S. WHILE AUSTRALIA AND NEW ZEALAND ENJOY THE ABILITY OF CHOOSING BETWEEN THOSE MARKETS AND THE U.S. MARKET. THEY ALSO ARE ABLE TO SELL TO THE USSR.

6. RECOGNITION OF U.S. BEEF SITUATION AND U.S. RIGHT TO IMPOSE QUOTAS - THROUGHOUT ALL OF THE EMBASSY'S DISCUSSIONS WITH COSTA RICAN GOVERNMENT OFFICIALS, CATTLEMEN'S REPRESENTATIVES AND EXPORT FIRMS' REPRESENTATIVES THERE HAS BEEN A FULL UNDERSTANDING AND RECOGNITION AS TO WHY THE U.S. AT

THIS TIME NEEDS TO PROTECT ITS DOMESTIC LIVESTOCK INDUSTRY.
THERE HAVE BEEN NO QUESTIONS ON WHY THE U.S. IS PROPOSING
VRS, NO CHALLENGES TO THE RIGHT TO IMPOSE QUOTAS, NOR
TYING OF THE MEAT PROGRAM TO THE TRADE BILL. EVEN THE
LOCAL PRESS HAS BEEN DEVOID OF EDITORIALS COMMENTS. THE
COSTA RICANS DO HAVE SERIOUS HOPES THAT MEANS OF MAIN-
TAINING OR POSSIBLY INCREASING THEIR BEEF EXPORTS TO
THE U.S. CAN BE FOUND.
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